

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Bay County Road Commission	County Bay County
Audit Date 12/31/05	Opinion Date 3/28/06	Date Accountant Report Submitted to State: 5/3/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations. Report on Internal Control	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48079
Accountant Signature <i>Stewart, Beauvais & Whipple</i>		Date 5/3/06	

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2005

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

DECEMBER 31, 2005
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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Bay County
Kawkawlin, Michigan

We have audited the accompanying basic financial statements of the Bay County Road Commission, a component unit of Bay County, Michigan, as of December 31, 2005, and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Bay County, Michigan, as of December 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 28, 2006, on our consideration of the Road Commission of Bay County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Bay County Road Commission. The schedules on pages 25-27 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Bay County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

March 28, 2006

BAY COUNTY ROAD COMMISSION

A Component Unit of Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Bay County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Bay County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Bay County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11-24 of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The net assets are separated into three major components, investment in capital assets, restricted net assets for primary and local roads and unrestricted net assets, which may be used to meet the ongoing obligations to citizens and creditors. The Road Commission's capital assets increased 7.9% from a year ago. The increase is primarily due additional road and bridge improvements added to the capital assets in 2005. Current and other restricted assets decreased while the short-term liabilities increased. The result was a decrease in restricted and unrestricted net assets of approximately \$1,533,717.

The table below shows a comparison of the net assets (in thousands of dollars) as of December 31, 2005 and 2004 in a condensed format.

	<u>2005</u>	<u>2004</u>
Assets		
Current and other unrestricted assets	\$ 4,259,367	\$ 5,386,384
Capital Assets	<u>82,142,843</u>	<u>76,122,954</u>
Total Assets	<u>86,402,210</u>	<u>81,509,338</u>
Liabilities		
Long-term liabilities outstanding	833,636	876,687
Other liabilities	<u>1,262,340</u>	<u>769,377</u>
Total Liabilities	<u>2,095,976</u>	<u>1,646,064</u>
Net Assets:		
Invested in capital assets	82,058,923	76,122,954
Restricted	-	944,679
Unrestricted	<u>2,247,311</u>	<u>2,795,641</u>
Total net assets	<u>\$ 84,306,234</u>	<u>\$ 79,863,274</u>

Statement of Activities

The following schedule compares the revenues and expenses (in thousands of dollars) for the current and previous fiscal years.

	2005	2004
Revenues		
Federal sources	\$ 1,633,465	\$ 1,317,634
State sources	8,303,330	8,741,499
Local sources	3,973,446	2,426,682
Charges for services	1,711,418	1,639,855
Other	<u>248,359</u>	<u>234,143</u>
Total Revenues	<u>15,870,018</u>	<u>14,359,813</u>
Expenses		
Maintenance	7,493,908	6,267,757
Administrative	895,666	1,104,002
Equipment (Net)	(880,496)	(1,220,628)
Depreciation	<u>3,917,980</u>	<u>3,630,060</u>
Total Expenses	<u>11,427,058</u>	<u>9,781,191</u>
Change in Net Assets	4,442,960	4,578,622
Net Assets – Beginning of Year	<u>79,863,274</u>	<u>75,284,652</u>
Net Assets – End of Year	<u>\$84,306,234</u>	<u>\$ 79,863,274</u>

As shown in the preceding schedule comparing 2005 and 2004 Statement of Activities amounts, the total revenue increased \$1,510,205 or 11%. A large portion of the change between the years resulted from an increase of \$1,546,764 in local sources. The increase in local sources was due to the Road Commission reinstating the Build Better Local Road Program (BBCRP), resulting in increased contributions from the Townships to supplement Road Commission match.

The balance of the revenue sources remained relatively constant between 2005 and 2004. Of the state source revenue, approximately \$7,800,000 and \$8,300,000 was received in 2005 and 2004, respectively from Michigan Transportation Funds which represents approximately 50% of the total revenue received in 2005 and 59% of total revenue received in 2004.

Total expenses increased from 2004 to 2005 by \$1,645,867 or 17%. The increase was related to an increase in maintenance costs of approximately \$1,300,000.

Government Funds Financial Analysis

As noted earlier, the focus of the fund (modified accrual) financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$2,444,952 a decrease of \$1,656,168 from the prior year. Approximately 93% or \$2,284,217 of the fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that the amount is not available for new spending because \$160,735 has been prepaid.

BUDGETARY HIGHLIGHTS

The total difference between the original budget and the final amended budget was a difference in appropriations of approximately \$1,700,000 or approximately 11% of original budget expenditures. The decrease was predominately the result of decreasing primary and local preservation-structured improvement expenditures.

The variance between the final budget and the actual amounts was a negative amount of approximately \$4,402,828 or approximately 34% of the final budget expenditures. The negative variance for local construction was the result of not budgeting for private roads being turned over to the Road Commission. The private roads are also reported as other local contributions.

Detail of the original budget, final amended budget and actual amounts may be seen on page 10 of the basic financial statements.

CAPITAL ASSETS

Capital Assets – As of year end, the Road Commission had \$82,058,923 invested in capital assets (net of accumulated depreciation) as reflected in the following schedule, representing an increase of \$5,935,969, or approximately 8% from the 2004 balance.

	<u>2005</u>	<u>2004</u>
Land	\$ 483,897	\$ 472,961
Land improvements and right-of-ways	40,552,443	37,504,422
Buildings & Improvements	983,584	1,027,985
Equipment	2,613,753	2,888,505
Depletable assets	40,886	40,886
Infrastructure	<u>37,384,360</u>	<u>34,188,195</u>
Total Capital Assets	<u>\$ 82,058,923</u>	<u>\$ 76,122,954</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Road Commission major revenue streams continue to decline. Long-term state fiscal crises is affecting local township's demands for maintenance projects. It is anticipated that there will be a decrease in Michigan Transportation Fund revenue in 2006 of approximately \$275,500, which comes after a reduction in 2005 from 2004 of approximately \$507,500.

The Road Commission has budgeted for Preservation-Structured Improvement projects to increase; however, other expenditures are expected to decrease. It is anticipated that a transfer from primary to local roads will be required again in 2006 to offset an anticipated fund balance deficit in local roads. An overall reduction in fund balance of \$1,446,700 is anticipated.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Bay County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Bay County Road Commission, 2600 E. Beaver Road, Kawkawlin, Michigan, 48631.

BASIC FINANCIAL STATEMENTS

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,264,873	\$ -	\$ 1,264,873
Due from other governmental units -			
State	1,500,015	-	1,500,015
Local	702,311	-	702,311
Due from primary government	5,241	-	5,241
Due from other component units	38,615	-	38,615
Accounts receivable	9,572	-	9,572
Interest receivable	1,408	-	1,408
Prepaid expenditures/expenses	160,735	86,908	247,643
Inventory	573,609	-	573,609
Capital assets, net of accumulated depreciation			
Assets being depreciated	-	41,022,583	41,022,583
Assets not being depreciated	-	41,036,340	41,036,340
Total Assets	<u>\$ 4,256,379</u>	<u>\$ 82,145,831</u>	<u>\$ 86,402,210</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 425,427	\$ -	\$ 425,427
Accrued liabilities	68,816	-	68,816
Due to other governmental units	138,863	-	138,863
Deferred revenue	549,087	(549,087)	-
Advances and deposits	629,234	-	629,234
Noncurrent liabilities			
Due within one year		73,295	73,295
Due in more than one year	-	760,341	760,341
Total Liabilities	<u>1,811,427</u>	<u>284,549</u>	<u>2,095,976</u>
Fund Balance:			
Fund Balance -			
Reserved -			
Prepaid expenditures	160,735	(160,735)	-
Unreserved -			
Undesignated	2,284,217	(2,284,217)	-
Total Fund Balance	<u>2,444,952</u>	<u>(2,444,952)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 4,256,379</u>		
Net Assets:			
Invested in capital assets		82,058,923	82,058,923
Unrestricted		2,247,311	2,247,311
Total Net Assets		<u>\$ 84,306,234</u>	<u>\$ 84,306,234</u>

See Notes to Financial Statements

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 45,698	\$ -	\$ 45,698
Intergovernmental -			
Federal sources	1,633,465	-	1,633,465
State sources	8,303,330	-	8,303,330
Local sources	3,850,088	123,358	3,973,446
Charges for services	1,711,418	-	1,711,418
Interest and rents	57,699	-	57,699
Other	144,962	-	144,962
Total Revenues	<u>15,746,660</u>	<u>123,358</u>	<u>15,870,018</u>
Expenditures/Expenses:			
Current -			
Local construction/capacity improvements	2,549,694	(2,549,694)	-
Primary preservation - structural improvements	3,582,682	(3,582,682)	-
Local preservation - structural improvements	2,867,866	(2,867,866)	-
Primary maintenance	2,611,106	(30,130)	2,580,976
Local maintenance	3,289,563	(45,622)	3,243,941
State maintenance	1,692,077	(23,086)	1,668,991
Administrative	895,666	-	895,666
Equipment	3,074,488	(1,075,317)	1,999,171
Less equipment rental charged			
other activities	(2,879,667)	-	(2,879,667)
Depreciation	-	3,917,980	3,917,980
Capital Outlay	865,450	(865,450)	-
Less depreciation credit and retirements	(1,146,097)	1,146,097	-
Total Expenditures/Expenses	<u>17,402,828</u>	<u>(5,975,770)</u>	<u>11,427,058</u>
Excess of revenues over (under) expenditures/expenses	(1,656,168)	6,099,128	4,442,960
Fund Balance/Net Assets at January 1, 2005	<u>4,101,120</u>	<u>75,762,154</u>	<u>79,863,274</u>
Fund Balance/Net Assets at December 31, 2005	<u><u>\$ 2,444,952</u></u>	<u><u>\$ 81,861,282</u></u>	<u><u>\$ 84,306,234</u></u>

See Notes to Financial Statements

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 30,000	\$ 42,000	\$ 45,698	\$ 3,698
Intergovernmental -				
Federal sources	1,789,500	-	1,633,465	1,633,465
State sources	8,210,000	7,361,500	8,303,330	941,830
Local sources	2,000,000	3,400,000	3,850,088	450,088
Charges for services	1,262,000	1,610,000	1,711,418	101,418
Interest and rents	108,000	123,000	57,699	(65,301)
Other	127,000	114,500	144,962	30,462
Total revenues	<u>13,526,500</u>	<u>12,651,000</u>	<u>15,746,660</u>	<u>3,095,660</u>
Expenditures:				
Current -				
Local construction/capacity improvement	500,000	1,500,000	2,549,694	(1,049,694)
Primary preservation - structural improvement	4,147,000	2,500,000	3,582,682	(1,082,682)
Local preservation - structural improvement	1,535,000	1,300,000	2,867,866	(1,567,866)
Primary routine maintenance	2,375,000	2,725,000	2,611,106	113,894
Local routine maintenance	3,773,840	2,935,000	3,289,563	(354,563)
State trunkline maintenance	1,162,000	1,350,000	1,433,400	(83,400)
State trunkline non maintenance	100,000	260,000	258,677	1,323
Administrative- net	750,000	720,000	895,666	(175,666)
Equipment - net	135,000	(200,000)	194,821	(394,821)
Capital Outlay - net	238,000	(90,000)	(280,647)	190,647
Total Expenditures	<u>14,715,840</u>	<u>13,000,000</u>	<u>17,402,828</u>	<u>(4,402,828)</u>
Excess of revenues under expenditures	(1,189,340)	(349,000)	(1,656,168)	(1,307,168)
Fund Balance at January 1, 2005	<u>4,823,939</u>	<u>4,101,121</u>	<u>4,101,120</u>	<u>(1)</u>
Fund Balance at December 31, 2005	<u><u>\$ 3,634,599</u></u>	<u><u>\$ 3,752,121</u></u>	<u><u>\$ 2,444,952</u></u>	<u><u>\$(1,307,169)</u></u>

NOTES TO FINANCIAL STATEMENTS

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Bay County Road Commission, a component unit of the County of Bay, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The more significant accounting policies are described as follows:

A. Description of Road Commission Operations –

The Bay County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Bay, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal awards, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government (townships) for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to fourteen (14) Townships in Bay County and maintains over 1,200 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents include certificates of deposit, commercial paper and investment trust funds and are recorded at cost which approximates fair value. The pooled investment funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories – Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of average cost or market.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an initial, individual cost of \$2,000 or more and an estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Accrued Vacation and Sick Pay – In accordance with contracts negotiated with the various employee groups, individual employees have vested right upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net assets).

Deferred Revenues – In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Advances From The State of Michigan – The State of Michigan advances funds on a State maintenance agreement it has with the Bay County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Equipment Rentals – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Fund Equity – Designation of fund balance represents tentative management plans that are subject to change.

Estimates – In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets (Page 8).

Fund Balance – governmental fund	\$ 2,444,952
Capital assets used in the governmental fund statements that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	118,230,968
Deduct – accumulated depreciation	(36,172,045)

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):

Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	\$ (833,636)
Prepaid expenses not reported in the governmental fund statements	86,908
Revenues that have been deferred in the governmental fund statements because they are not "available"	<u>549,087</u>
Net Assets	<u>\$ 84,306,234</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 9).

Excess of revenues under expenditures – governmental fund statement	\$ (1,656,168)
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	9,865,692
Deduct – retirements	(11,744)
Deduct – depreciation	(3,917,980)
Revenues deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	123,358
Prepaid expense adjustment not reported in the governmental fund statements	(3,250)
Accrued vacation and sick time and worker's compensation expenses not reported in the governmental fund statements because they will not be paid with current financial resources	<u>43,052</u>
Change in Net Assets	<u>\$ 4,442,960</u>

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Engineer-Manager of the Road Commission prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them. The budget is approved at the activity level by the Board of County Road Commissioners.

The budget for the General Operating Fund is adopted on the modified accrual basis which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioner's Resolution. After the budget is adopted, the Engineer-Manager is authorized to transfer amounts between items of the adopted budget at year end to reflect the effects of the distribution of the distributive account. All amendments to the budget must have direct approval of the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2005, the Road Commission had over-expenditures as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2005, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 200
Deposits with Financial Institutions	
Imprest Checking	20,000
Checking maintained by County Treasurer	14,026
Investments	
Government Investment Trusts	30,000
Investments maintained by County Treasurer	<u>1,200,647</u>
	<u>\$ 1,264,873</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Bay County Treasurer's Office, and in order to make disbursements, the Bay County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll investment trust sweep account with vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Information on the Bay County investment policy and the various investment risk categories may be obtained from the Bay County Financial Report for the year ended December 31, 2005.

Deposits –

As a component unit of Bay County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Bay County at banking institutions insured by federal depository insurance. However, the Road Commission by State statute has fund allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts. At December 31, 2005, the carrying amount of the Road Commission's deposits is \$34,020, and the bank balance is \$26,040 of which all is FDIC insured.

Investments –

As of December 31, 2005, the County, on behalf of the Road Commission, had invested in external investment pools as sweep accounts for the vendor and payroll checking and directly into certificates of deposits, government obligations, commercial paper and money market funds. Information regarding these investments may be obtained from the Bay County Financial Report for the year ended December 31, 2005.

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

The investment trusts (sweep accounts) have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the County Treasurer, on behalf of the Road Commission, may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other government units as of December 31, 2005 consists of the following:

State –	
Motor Vehicle Highway Funds	\$ 1,232,223
Trunkline Maintenance	266,911
Transportation Department – Other	<u>881</u>
	<u>1,500,015</u>
Local –	
Township road agreements	609,968
Other	<u>92,343</u>
	<u>702,311</u>
	<u>\$ 2,202,326</u>

The governmental fund statements report deferred revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. Both the government-wide and the governmental fund statements defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current year deferred revenue in the governmental fund consisted of Township road agreement receivables in the amount of \$549,087 that are considered to be unavailable at December 31, 2005.

NOTE 6 - INVENTORIES:

The inventory balance of \$573,609 at December 31, 2005 consisted of \$319,647 of road materials and \$253,962 of equipment parts and materials.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance December 31, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Removals</u>	Balance December 31, <u>2005</u>
Capital Assets, not being depreciated –					
Land	\$ 472,961	\$ 10,936	\$ -	\$ -	\$ 483,897
Land Improvements	37,154,761	3,048,021	-	-	40,202,782
Right of Ways	<u>349,661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>349,661</u>
Total Capital Assets, not being depreciated	<u>37,977,383</u>	<u>3,058,957</u>	<u>-</u>	<u>-</u>	<u>41,036,340</u>
Capital Assets, being depreciated –					
Buildings and Improvements	2,402,666	21,523	-	-	2,424,189
Road Equipment	9,222,916	793,022	473,796	-	9,542,142
Shop Equipment	129,370	4,651	-	-	134,021
Office Equipment	169,584	12,181	-	-	181,765
Engineering Equipment	104,064	10,519	-	-	114,583
Yard and Storage	1,294,302	12,619	-	-	1,306,921
Infrastructure -					
Roads	42,061,250	4,572,031	-	(1,606,274)	45,027,007
Bridges	16,736,690	1,380,190	-	-	18,116,880
Traffic Signals	294,083	-	-	-	294,083
Depletable assets –					
Gravel Pits	<u>53,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,037</u>
	<u>72,467,962</u>	<u>6,806,736</u>	<u>473,796</u>	<u>(1,606,274)</u>	<u>77,194,628</u>
Less – accumulated depreciation for –					
Buildings and Improvements	1,374,681	65,924	-	-	1,440,605
Road Equipment	7,149,164	1,008,244	462,052	-	7,695,356
Shop Equipment	94,009	7,231	-	-	101,240
Office Equipment	102,535	19,855	-	-	122,390
Engineering Equipment	67,686	6,678	-	-	74,364
Yard and Storage	618,337	53,992	-	-	672,329
Infrastructure –					
Roads	18,271,163	2,394,731	-	(1,606,274)	19,059,620
Bridges	6,403,631	348,388	-	-	6,752,019
Traffic Signals	229,034	12,937	-	-	241,971
Depletable Assets	<u>12,151</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,151</u>
	<u>34,322,391</u>	<u>3,917,980</u>	<u>462,052</u>	<u>(1,606,274)</u>	<u>36,172,045</u>
Total Capital Assets, being depreciated, net	<u>38,145,571</u>	<u>2,888,756</u>	<u>11,744</u>	<u>-</u>	<u>41,022,583</u>
Governmental activity capital assets, net	<u>\$ 76,122,954</u>	<u>\$ 5,947,713</u>	<u>\$ 11,744</u>	<u>\$ -</u>	<u>\$82,058,923</u>

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7 - CAPITAL ASSETS - (cont'd):

The State of Michigan does not allow depreciation to be recorded in the governmental fund statements on salt barn construction costs reimbursed by the State. However, the depreciation of \$15,827 on the salt barn is recorded in the government-wide statement of activities. Total depreciation for the year ended December 31, 2005 was \$3,917,980.

NOTE 8 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2005, the Road Commission of Bay County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$1,633,465 represent the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however are required to be reported by the Road Commission.

NOTE 9 - ADVANCES AND DEPOSITS:

Advances and deposits of \$629,234 at December 31, 2005, represent money advanced by the State of Michigan under the maintenance contract the Road Commission has with the State, money advanced by the State for equipment purchases, and deposits from contractors and individuals for various projects. Both State advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance by source and use:

State -	
Trunkline maintenance	\$ 402,499
Equipment	<u>114,020</u>
	<u>516,519</u>
Local -	
Contractors and Individuals -	
Performance deposits	<u>112,715</u>
	<u>\$ 629,234</u>

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 10 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2005:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Accrued sick and vacation	\$ 701,687	\$ 71,949	\$ -	\$ 773,636	\$ 13,295
Accrued claims liability	<u>175,000</u>	<u> </u>	<u>115,000</u>	<u>60,000</u>	<u>60,000</u>
	<u>\$ 876,687</u>	<u>\$ 71,949</u>	<u>\$ 115,000</u>	<u>\$ 833,636</u>	<u>\$ 73,295</u>

Accrued Sick and Vacation

Employees are granted vacation and sick leave in varying amounts based on the Commission's administrative policy and contract with union employees. Vacation time is credited annually to each employee, but cannot be accumulated for more than one year without Board approval, with the exception that all employees can carry over five days without Board approval. Administrative employees and union employees are limited to 1,200 hours sick leave accumulation. At this point, the employees are allowed to accumulate 96 hours of sick leave reserve, of which the unused portion is paid by the Road Commission at the beginning of the following year. Upon retirement, permanent disability or leaving the employment of the Road Commission, all union employees are paid 85 percent of their accumulated sick leave. Administrative employees are paid 85 percent of their accumulated sick leave upon leaving the employment of the Road Commission. The dollar amount of these vested rights which has been accrued on the financial statements amounted to approximately \$579,553 for sick leave and \$194,083 for vacation at December 31, 2005.

Accrued Claims Liability -

The County has estimated accrued outstanding workers' compensation insurance claims including an estimate for the claims incurred but not reported (IBNR). The dollar amount of these claims, which has been accrued on the financial statements, is estimated to amount to approximately \$60,000 at December 31, 2005.

NOTE 11 - EMPLOYEE PENSION:

Plan Description -

The Bay County Road Commission, as a component unit of Bay County, participates in the Bay County Retirement System. The Retirement system is a single employer, defined benefit pension plan, which was established by County ordinance to provide retirement and pension benefits for substantially all employees of Bay County. The benefit provisions are governed by Michigan Public Act of 1984, as amended.

The County issues a publicly available Annual Financial Report that includes financial statements for the plan. That report may be obtained from Bay County by writing to the Bay County Employees Retirement System, Bay County Building, 515 Center Avenue – Suite 706, Bay City, MI 48708-6128.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 11 - EMPLOYEE PENSION - (cont'd):

Funding Policy -

The County's policy is to fund normal costs which are based on actuarially determined rates, expressed as percentages of annual covered payroll, and which are sufficient to accumulate assets to pay benefits when due. The provisions of the Plan requires the County to contribute at an actuarially determined rate. The current rate for the County and Road Commission employees is 0% of annual covered payroll. Plan members contribute at a rate of 4% of their annual covered salary. The County pays the plan member contributions for all employee groups. The Plan benefit provisions and contribution requirements of plan members and the County are established and may be amended by the Board of Commissioners in accordance with County policies, union contracts, and plan provisions.

Annual Pension Costs

During the year ended December 31, 2005, the County's annual pension cost of \$0 was equal to the County's required and actual contributions. The Road commission paid plan member contribution of \$288,945 for the year ended December 31, 2005.

The required contribution rate was determined as part of the December 31, 2004 actuarial valuation using the individual entry age normal cost method. The actuarial assumption included (a) 7.5% net investment rate of return, and (b) project salary increases of 4% pay inflation plus merit and longevity. There are no projected cost of living adjustments. The actuarial value was determined using techniques that smooth the effect of short-term volatility in the market value of investment over a five year period. The Bay County unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization periods are 30 years for groups that are underfunded and 10 years for groups that are over funded. There is no unfunded accrued liability for the Road Commission.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Road</u> <u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
December 31, 2003	\$ -	100 %	\$ -
December 31, 2004	-	100	-
December 31, 2005	-	100	-

NOTE 12 - POSTEMPLOYMENT:

In addition to the pension benefits described in Note 11, the Bay County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service or age 60 with 8 years of service.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 12 - POSTEMPLOYMENT - (cont'd):

During 2002, the Road Commission started participation in the Bay County Public Employee Health Care Fund where contributions are made annually to accumulate an amount to fund postemployment benefits (health care). The Road Commission contributed \$113,801 to the fund for the year-end December 31, 2005. Along with this contribution, the Road Commission recognizes expenditures paid for postemployment health care benefits on a pay-as-you-go basis. For the year ended December 31, 2005 these health care costs amounted to approximately \$859,517 with 78 eligible participants.

NOTE 13 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Bay County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State, cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 14 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Bay County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 14 - RISK MANAGEMENT - (cont'd):

At December 31, 2005, the Road Commission is self-insured for workers' compensation claims. Liabilities for workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities included a provision for claims that have been incurred but not reported (IBNRs). Claims liabilities are estimated based on actual claims filed subsequent to year-end. Effective January 1, 2006, the Road Commission became a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. Effective February 1, 2006, the Road Commission opted to participate in a self-insurance program with its commercial carrier that bases premiums on the Road Commission experience and provides for stop loss coverage. Premiums are adjusted every three months. The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

NOTE 15 - EQUIPMENT EXPENDITURE/EXPENSE NET BALANCE:

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure/expense credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The net balance for the year ended December 31, 2005 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 1,670,279	\$ 662,035
Indirect	1,091,849	1,024,776
Operating	<u>312,360</u>	<u>312,360</u>
	3,074,488	1,999,171
Less-equipment rental	(<u>2,879,667</u>)	(<u>2,879,667</u>)
	<u><u>\$ (194,821)</u></u>	<u><u>\$ (880,496)</u></u>

BAY COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 16 - CAPITAL OUTLAY EXPENDITURES NET BALANCE:

On the governmental fund financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The balance of \$(280,647) is the result of the amount of depreciation and retirements being subtracted from capital outlay expenditures for the year ended December 31, 2005 as follows:

Capital Outlay –	
Land improvements, building	
and equipment	\$ 865,450
Less - depreciation/depletion	(1,134,353)
- retirements	(11,744)
	<u><u>\$ (280,647)</u></u>

SUPPLEMENTARY INFORMATION

BAY COUNTY ROAD COMMISSION
A Component Unit of Bay County, Michigan

DETAIL SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Permits	\$ 45,698	\$ 33,331
Federal Sources -		
Critical Bridge	1,052,022	1,317,634
Surface transportation program (STP)	581,443	-
	<u>1,633,465</u>	<u>1,317,634</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Urban road	1,248,206	1,361,271
Allocation	6,581,793	6,976,257
Economic Development Fund - rural primary	463,331	393,971
	<u>8,303,330</u>	<u>8,741,499</u>
Local Sources -		
Township contributions	1,560,088	1,431,181
Other contributions	2,290,000	835,000
County appropriation	-	120,080
	<u>3,850,088</u>	<u>2,386,261</u>
Charges for Services -		
State Trunkline maintenance	1,428,784	1,484,660
State Trunkline nonmaintenance	258,677	129,188
Salvage sales	6,381	7,516
Other Inspection fees	17,576	18,491
	<u>1,711,418</u>	<u>1,639,855</u>
Interest and rent	<u>57,699</u>	<u>49,218</u>
Other -		
Sundry refunds	1,833	4,795
Gain on equipment disposal	77,092	84,860
Other	66,037	61,939
	<u>144,962</u>	<u>151,594</u>
 Total Revenues	 <u><u>\$ 15,746,660</u></u>	 <u><u>\$ 14,319,392</u></u>

BAY COUNTY ROAD COMMISSION
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DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Expenditures:		
Construction/ Capacity Improvements -		
Local roads and structures	\$ 2,549,694	\$ 902,583
Preservation - Structural Improvements		
Primary roads and structures	3,582,682	4,021,141
Local roads and structures	<u>2,867,866</u>	<u>3,402,052</u>
	<u>6,450,548</u>	<u>7,423,193</u>
Maintenance -		
Primary roads and structures,		
winter and traffic control	2,611,106	2,140,056
Local roads and structures,		
winter and traffic control	<u>3,289,563</u>	<u>2,502,477</u>
	<u>5,900,669</u>	<u>4,642,533</u>
State Maintenance -		
State Trunkline maintenance	1,433,400	1,423,825
State Trunkline nonmaintenance	<u>258,677</u>	<u>129,188</u>
	<u>1,692,077</u>	<u>1,553,013</u>
Equipment -		
Direct	1,670,279	1,474,738
Indirect	1,091,849	809,529
Operating	312,360	260,731
Less - equipment rental	<u>(2,879,667)</u>	<u>(2,797,255)</u>
	<u>194,821</u>	<u>(252,257)</u>
Administrative -		
Administration	1,076,641	1,288,460
Less - overhead	<u>(175,760)</u>	<u>(155,751)</u>
- handling charges	-	(22,505)
- purchase discounts	<u>(5,215)</u>	<u>(6,202)</u>
	<u>895,666</u>	<u>1,104,002</u>
Capital Outlay -		
Land improvements, building		
and equipment	865,450	1,013,052
Less - depreciation/depletion	<u>(1,134,353)</u>	<u>(1,020,817)</u>
- retirements	<u>(11,744)</u>	<u>(91)</u>
	<u>(280,647)</u>	<u>(7,856)</u>
Total Expenditures	<u>\$ 17,402,828</u>	<u>\$ 15,365,211</u>

BAY COUNTY ROAD COMMISSION
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
Revenues:				
Permits	\$ 10,670	\$ 11,259	\$ 23,769	\$ 45,698
Intergovernmental -				
Federal Sources	590,063	1,043,402	-	1,633,465
State Sources	6,174,920	2,128,410	-	8,303,330
Local Sources	-	3,850,088	-	3,850,088
Charges for services	-	17,576	1,693,842	1,711,418
Interest and rents	-	10	57,689	57,699
Other	-	65,801	79,161	144,962
Total Revenues	<u>6,775,653</u>	<u>7,116,546</u>	<u>1,854,461</u>	<u>15,746,660</u>
Expenditures:				
Construction/ capacity improvements	-	2,549,694	-	2,549,694
Preservation - Structural Improvements	3,582,682	2,867,866	-	6,450,548
Maintenance	2,611,106	3,289,563	-	5,900,669
Other -				
Trunkline maintenance	-	-	1,433,400	1,433,400
Trunkline nonmaintenance	-	-	258,677	258,677
Administrative - net	372,297	523,369	-	895,666
Equipment - net	64,349	69,123	61,349	194,821
Capital outlay - net	-	-	(280,647)	(280,647)
Total Expenditures	<u>6,630,434</u>	<u>9,299,615</u>	<u>1,472,779</u>	<u>17,402,828</u>
Excess of revenues over (under) expenditures before optional transfers	145,219	(2,183,069)	381,682	(1,656,168)
Optional transfers	<u>(1,089,898)</u>	<u>1,089,898</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	(944,679)	(1,093,171)	381,682	(1,656,168)
Fund balance at beginning of year	944,679	-	3,156,441	4,101,120
Inter subaccount transfer	<u>-</u>	<u>1,093,171</u>	<u>(1,093,171)</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,444,952</u></u>	<u><u>\$ 2,444,952</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of County Road
Commissioners of Bay County
Kawkawlin, Michigan

We have audited the financial statements of Bay County Road Commission, a component unit of Bay County, Michigan, as of and for the year ended December 31, 2005, and have issued our report thereon, dated March 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Bay County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bay County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and Board of County Road Commissioners of the Bay County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

March 28, 2006